

**MINUTES OF THE REGULAR MEETING OF THE
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**HELD ON
Friday, October 19, 2001
8:30 a.m. MST**

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room of the ASRS office at 3300 North Central Avenue, Phoenix, Arizona 85012. Mr. Jim Bruner, ASRS Board Chairman, called the meeting to order at 8:30 a.m., MST.

The meeting was teleconferenced to the ASRS office, 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona 85710.

1. Call to Order; Roll Call.

Present: Mr. Jim Bruner
Dr. Merlin DuVal
Dr. Chuck Essigs
Ms. Bonnie Gonzalez
Mr. Jim Jenkins
Mr. Alan Maguire
Mr. Norman Miller
Mr. Karl Polen
Mr. Ray Rottas

A quorum was present for the purpose of conducting business.

2. Approval of Minutes of the September 21, 2001, Regular Meeting of the ASRS Board

By a vote of 9 in favor, 0 opposed, 0 abstention, 0 excused, the Board approved the minutes of the September 21, 2001, Regular Meeting of the ASRS Board.

3. Board Approval of Consent Schedule.

The summary report of Retirements, Refunds and Death Benefits, Transfer Requests, and Application and Agreements with the Following Employers:

- Tucson Country Day School Inc.
- Central Arizona Valley Institute of Technology
- Visions Unlimited Academy Inc.
- TAG Elementary Inc.

By a vote of 9 in favor, 0 opposed, 0 abstentions, 0 excused, the Board approved the Consent Schedule.

4. Presentation and Discussion Regarding a Presentation from Representative Huppenthal

Representative John Huppenthal asked the Board to engage in a joint study. The purpose of the study would be to look at the Brookshire Hathaway Company and to do an analysis of the strategies and approaches used within this company by Warren Buffet, who is regarded as the best investor of all time. He suggested that the Board review the literature and try to break ground in new areas and see if the ASRS could move a body of returns similar to the method used by Mr. Buffet.

Rep. Huppenthal suggested that he chair this group and that they meet once every two months until this study is completed. This study might run about two years and be comprised of seven to twelve members, with some members appointed by the Board, and members appointed by Arizona State University to make this an academic project.

Mr. Bruner suggested that staff evaluate this suggestion along with the ASRS' investment consultant, Mercer Investment Consulting, to determine the appropriateness of this proposal.

5. Presentation, Discussion and Appropriate Action Regarding the Performance of the Tactical Asset Allocation (TAA) Manager for the Period Ending June 30, 2001

Mr. Terry Dennison, Principal, Mercer Investment Consulting, reported on the investment manager's performance for Barclays Global Investors (BGI) for the period ending June 30, 2001.

Mr. Scott Clifford, Managing Director, Asset Allocation Fund, and Mr. David Lissek, Principal, Client Relationship Officer reported on BGI's Performance for the period ending June 30, 2001.

As of 6/30/01	2Q01	1 Year	3 Years	5 Years	Inception*
US TAA Net Return	5.8%	-14.8%	4.0%	13.0%	14.7%
Benchmark Return	6.3%	-13.0%	6.0%	16.7%	17.0%
Value Added vs. Benchmark	-0.5%	-1.8%	-2.0%	-3.7%	-2.3%
S&P 500 Return	5.8%	-14.8%	3.9%	14.4%	14.7%
Total Value Added vs. S&P 500	0.0%	0.0%	0.1%	-1.4%	0.0%

Mr. Bruner pointed out that since inception this portfolio has added zero value to the portfolio. He asked why the ASRS was pursuing this approach. Mr. Clifford replied by saying this was a strategy where there were few opportunities for the strategy to add value.

Mr. Paul Matson, Chief Investment Officer, was asked to take this issue under advisement. Mr. Matson agreed to get back to the Board with a recommendation regarding the TAA asset

allocation after a meeting of the Investment Review Board Committee.

6. Presentation, Discussion and Appropriate Action Regarding the PacifiCare Rates for Calendar Year 2002

The primary vendor for medical care for 2001 has been PacifiCare. A three-year contract was signed last year with this vendor. This contract is renegotiable every year, and rates are allowed to change from year to year. The current rate suggestions received from PacifiCare for the year effective January 1, 2002 are within the pre-authorized rate increases.

The rate information was presented to the Long Term Disability Health Insurance Board Committee (LTD/HI) on September 27, 2001. It was also noted at that meeting that PacifiCare is withdrawing all of its HMO products from the rural counties.

Dr. Merlin DuVal, LTD/HI Board Committee Chairman, explained there is no alternative at this time and also, there is no time to go into the market place to ask for bids from other sources. The Committee had no other alternative but to accept the rates.

Motion: Dr. DuVal moved that the Board accept PacifiCare's 25 percent premium increase for Non-Medicare Risk Medical Plans and 100 percent increase for Medicare Risk Medical plans.

Mr. Ray Rottas seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, 0 excused, the motion was approved.

7. Presentation, Discussion and Appropriate Action Regarding the Contract Award for the Independent Advisory Consultant

Ms. Bonnie Gonzalez, Budget and Long Range Planning Board Committee Chairperson explained that this Committee, after issuing a Request for Proposal and interviewing candidates for the contract award for an Independent Advisory Consultant, recommends award of the contract to Spherion Corporation. She explained that this candidate has worked with other state agencies and understands state retirement.

Motion: Ms. Gonzalez moved that the Board award a contract to Spherion Corporation to serve as Independent Advisory Consultant, or project monitor, for the ASRS on future IT projects, beginning with the PERIS Development Contract.

Mr. Alan Maguire seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, 0 excused, the motion was approved.

8. Director's Report

LeRoy Gilbertson, Director, explained that staff members are in the process of meeting with various staff members of the Governor's Budget Office and the Joint Legislative Budget Committee (JLBC) to discuss the state of the Retirement System as far as the effect the markets have had on the System. The ASRS has not been asked to come up with any proposed budget cuts at this time.

Dr. Chuck Essigs stated that there are three groups that sponsor Charter schools and asked Mr. Gilbertson if these groups are notified when Charter schools are not in compliance. Mr. Fred Stork, Assistant Attorney General, interjected and stated that both the State Board of Education and the Charter Board are notified of this information.

Mr. Jim Jenkins complimented the staff who developed the retirement benefit estimator and the service purchase estimator located on the Web site. Mr. Gilbertson stated that the ASRS is receiving much positive feedback about these tools.

Mr. Jenkins also pointed out that the telephone abandonment rate continues to climb along with the number of walk-ins to the ASRS offices. Mr. Anthony Guarino, Deputy Director, Chief Operations Officer, replied by saying that the ASRS has been granted permission from the State Procurement Office to seek outsourcing of a call center. This will create the proper staffing levels needed to keep up with the call volume.

9. Board Requests for Agenda Items

There were no requests for future agenda items from Board members.

10. Call to the Public

There were no requests to speak from the Phoenix or Tucson public.

11. The next regular ASRS Board meeting is scheduled for Friday, November 16, 2001, at 8:30 a.m. in the Tucson Office, 7660 East Broadway Blvd., Suite 108, Tucson, AZ 85710-3776.

12. Adjournment of the ASRS Board.

Mr. Jim Bruner adjourned the October 19, 2001 meeting of the ASRS Board at 9:34 a.m.

Respectfully submitted,

Marina Chaves, Secretary

Date

LeRoy Gilbertson, Director

Date